

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0936-01
Bill No.: HB 473
Subject: Health Care; Insurance - Medical; State Employees
Type: Original
Date: April 23, 2003

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
General Revenue	(Exceeding \$24,002,548)	(\$24,602,612)	(\$25,217,677)
Total Estimated Net Effect on General Revenue Fund	(Exceeding \$24,002,548)	(\$24,602,612)	(\$25,217,677)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
All Other Funds	(Exceeding \$13,936,367)	(\$14,284,776)	(\$14,641,895)
Total Estimated Net Effect on Other State Funds	(Exceeding \$13,936,367)	(\$14,284,776)	(\$14,641,895)

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 9 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
Federal Funds	(Exceeding \$8,299,860)	(\$8,507,356)	(\$8,720,041)
Total Estimated Net Effect on <u>All</u> Federal Funds	(Exceeding \$8,299,860	(\$8,507,356)	(\$8,720,041)

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Revenue** assume the proposal would have no fiscal impact on their organization.

Officials from the **Missouri Department of Conservation (MDC)** state the proposed legislation would not appear to have a direct impact on MDC funds.

Officials from the **Department of Agriculture** and **Department of Economic Development** assume the Office of Administration will calculate the fiscal impact associated with this proposal.

Officials from the **Office of Administration (COA) - Division of Budget and Planning (BAP)** state the proposed legislation should not result in additional costs or savings to the BAP.

Officials from the **Department of Public Safety - Missouri Highway Patrol (MHP)** defer to the Department of Transportation for response relating to the fiscal impact of this proposal on the MHP.

ASSUMPTION (continued)

Officials from the **Department of Mental Health (DMH)** state the portion of employees' insurance coverage that is paid by the state does not come from funds appropriated to the agency. This change will not cause DMH to change any existing practice or procedure. Changing the formula to determine insurance premiums will have no fiscal impact on the DMH.

Officials from the **Department of Health and Senior Services (DOH)** state this legislation would not be expected to significantly impact the operations of the DOH. If the proposal were to substantially impact any DOH programs, the Department would request funding through the legislative process.

Officials from the **Department of Labor and Industrial Relations (DOL)** anticipate the proposal would result in an additional cost to General Revenue of \$54,941 for each year, FY 04, FY 05, and FY 06. In addition, the proposal would result in an additional cost of approximately \$424,400 annually to the Unemployment Compensation Administration Fund (Federal Funds), \$6,098 annually to the Crime Victims' Compensation Fund (Federal Fund), and \$112,392 annually to the Workers' Compensation Fund.

Officials from the **Department of Transportation (DOT)** state medical costs increase by 13% each year after FY 2004; no salary increases due to budget constraints; employees with 3 or more children enrolled in the family category of MoDOT's plan are assumed to be in the family category of the new plan (not Employee & Children)

Cost estimates for the new plan were calculated using the average salary of MoDOT's employees within each range and rate category multiplied by the new percentages. This amount was subtracted from the current premiums to find the increase/decrease for each range and category. The increase/decrease was multiplied by the number of employees and summed to get a monthly total, which was annualized.

The DOT estimates the proposal would result in additional costs to the General Revenue Fund of \$601,340 for FY 04, \$453,010 for FY 05, and \$511,901 for FY 06. Costs to the Highway Fund are estimated to be \$2,282,021 for FY 04, \$17,719,122 for FY 05, and \$1,942,608 for FY 06. Costs to the Patrol Highway Fund are estimated to be \$5,807,507 for FY 04, \$4,374,988 for FY 05, and \$4,943,737 for FY 06. The estimated cost to all other funds is \$161,107 for FY 04, \$121,368 for FY 05, and \$137,143 for FY 06.

ASSUMPTION (continued)

Officials from the **Missouri Consolidated Health Care Plan (HCP)** state this proposal could have a great fiscal impact on the HCP. The impact on FY 03 and FY 04 may be a combined \$99,329,091 (FY 03 - \$30,081,300; FY 04 - \$69,247,791).

These estimates were calculated by employing a 14% inflation rate, using current coverage levels, assuming the acquisition of 50% of current employees opting to waive coverage, and based on current regional low-cost Premium Coverage plan (or the HCP Copay plan in regions where a Premium plan was unavailable).

Officials from the **Department of Natural Resources (DNR)** state level of coverage and salary amounts as of January 31, 2003 were evaluated to determine which plan in each region was the lowest cost premium plan for each employee and which salary level the employee was categorized at under the proposal. The lowest cost premium plan for each employee was then compared to the premiums for which plan the employee is currently enrolled. For FY 04, the state will contribute an amount equal to the lowest cost premium plan or the premium amount the employee has chosen, whichever is less. Therefore, the state's additional liability is the lesser of the annual lowest cost premium plan or the annual premium amount for the plan chosen. Reimbursement amounts for premiums paid from January 1, 2003 to June 30, 2003 were determined by evaluating coverage and salary amounts as of January 31, 2003 to determine which plan in each region was the lowest cost premium plan for each employee. The lowest cost premium plan for each employee was then compared to the employees' annual salary and coverage amount to determine the amount each employee would have contributed under the proposed legislation.

An assumption is made that the level of coverage for employees remains constant. However, if employees increase their level of coverage, particularly for those employees whose salary is less than \$40,000, the fiscal impact to the DNR would significantly increase because the employee's contribution would remain 0% of their annual income, but the premium amount for the state's contribution would increase.

The DNR estimates the additional fiscal impact of this proposal to be approximately \$3,029,266 for FY 04 (GR - \$472,565; Dedicated Funds - \$1,929,642; Federal Funds - \$627,058) and \$1,778,682 for each FY 05 and FY 06 (GR - \$277,474; Dedicated Funds - \$1,133,020; Federal Funds - \$368,1870).

ASSUMPTION (continued)

Officials from the **Department of Insurance (INS)** state based on rates in the Group Health Plan Premium HMO for the Central Region, the INS estimates the proposal would result in an

increase in health insurance costs for coverage of employees to the Insurance Dedicated Fund ranging from \$59,856 (employee only) to \$423,828 (family coverage current premiums of \$476,760 less new premium amount of \$52,912). For the Insurance Examiners Fund, the proposal would result in additional costs for coverage for employees ranging from \$6,708 (employee only) to \$131,190 (family coverage current premiums of \$263,040 less new premium amount of \$131,850).

The cost to reimburse for January 1 through June 30, 2003 would be approximately half of the estimated costs for the new premium structure in addition to the ranges provided above.

Officials from the **Department of Social Services (DOS)** indicate the state will see an increase in costs from two factors. Employees earning less than \$60,000 would not have to contribute to their health care coverage. The state contribution for these employees would increase. In addition, state costs could increase as a result of more employees participating in the program. Because of the high cost of coverage, some employees do without coverage or obtain coverage elsewhere, perhaps through a spouse's employment. If Missouri Consolidated Health Care Plan coverage is free, there is no disincentive to sign up. The DOS defers to the Office of Administration to calculate the increased costs. Some of these costs will ultimately be charged against DOS federal fund sources.

Officials from the **COA - Division of Personnel (Personnel)** state that to arrive at the fiscal impact for the state, the division looked at the employee's current annual salary and current health care premium. Based on the salary levels in the proposed legislation and the employee's current level of coverage, Personnel determined if the proposed premium is less than the premium currently being paid by the employee. If so, Personnel assumed the state would have to pick up the difference. These calculations were applied to 44,483 employees currently in Missouri Consolidated Health Care Plan (HCP). The estimated cost is \$45,111,000. This estimate does not include adjustments for employees changing to higher levels of coverage; employees that may return to HCP for coverage; and the inflation to health care premiums that may occur. Personnel defers to HCP for that information and for estimates addressing the sections listed below.

The estimate also does not address the cost of Section 103.102.1, reimbursing employees for health care premiums paid from January 1, 2003 through June 30, 2003 which exceed the lowest cost plan in the employee's region for the current coverage in which they are enrolled.

ASSUMPTION (continued)

The estimate does not address the cost of Section 103.102.2(2) to cover medical expenses, prescriptions and co-payments from January 1, 2003 through June 30, 2003, for employees who

are currently paying less than what the proposed legislation would cost them.

The proposed legislation would be effective July 1, 2003 and would not include associated fringe benefits. Personnel assumed a full year's impact for FY 2004. This is reflected on the Fiscal Estimate Worksheet

The estimate was entered under General Revenue on the Fiscal Estimate Worksheet. Overall, General Revenue represents about 51.9% of FY 2003 Total Personal Service. Federal and Other Funds represent about 48.1%.

Oversight determined the Office of Administration (COA)- Division of Personnel calculated the fiscal impact of this proposal for all agencies, which will be used for fiscal note purposes. However, the COA - Division of Personnel did not provide information regarding the potential cost of employee reimbursements for health insurance premiums paid from January 1 through June 30, 2003. These reimbursements are to be appropriated by the General Assembly in the FY 04 budget. As this information was not available, **Oversight** will present FY 04 costs as exceeding OA's fiscal impact for FY 04.

Oversight obtained information from Personnel and determined the split for Personnel Services for FY 03 to be 51.9% General Revenue, 17.95% Federal funds, and 30.14% All Other Funds. **Oversight** will present the costs split between these funds for fiscal note purposes.

Officials from the **Department of Corrections** did not respond to our request for a statement of fiscal impact.

<u>FISCAL IMPACT - State Government</u>	FY 2004 (12 Mo.)	FY 2005	FY 2006
GENERAL REVENUE FUND			
<u>Costs - All State Departments</u>			
Increase in insurance premiums	(Exceeding <u>\$24,002,548</u>)	<u>(\$24,602,612)</u>	<u>(\$25,217,677)</u>

**ESTIMATED NET EFFECT ON
 GENERAL REVENUE FUND**

<u>(Exceeding</u>		
<u>\$24,002,548)</u>	<u>(\$24,602,612)</u>	<u>(\$25,217,677)</u>

ALL OTHER FUNDS

Costs - All State Departments

Increase in insurance premiums	(Exceeding		
	\$13,936,367)	(\$14,284,776)	(\$14,641,895)

**ESTIMATED NET EFFECT ON ALL
 OTHER FUNDS**

<u>(Exceeding</u>		
<u>\$13,936,367)</u>	<u>(\$14,284,776)</u>	<u>(\$14,641,895)</u>

FEDERAL FUNDS

Costs - All State Departments

Increase in insurance premiums	(Exceeding		
	\$8,299,860)	(\$8,507,356)	(\$8,720,041)

**ESTIMATED NET EFFECT ON
 FEDERAL FUNDS**

<u>(Exceeding</u>		
<u>\$8,299,860)</u>	<u>(\$8,507,356)</u>	<u>(\$8,720,041)</u>

FISCAL IMPACT - Local Government

FY 2004 (10 Mo.)	FY 2005	FY 2006
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

This proposal may impact small business insurance companies that provide health insurance coverage for state employees who currently do not wish to purchase health insurance through the state.

DESCRIPTION

Effective in Fiscal Year 2004, this proposal requires state employees to contribute a percentage of their annual income toward their health insurance coverage for a spouse or children on the

basis of the employee's salary. The coverage is to be Missouri Consolidated Health Care Plan's premium plan option. If the employee's plan is not the lowest cost plan, the state will contribute the amount of the lowest cost plan.

The General Assembly is to appropriate moneys in the Fiscal Year 2004 budget to cover the cost of reimbursing employees for Missouri Consolidated Health Care Plan premiums paid by employees between January 1, 2003, and June 30, 2003, which exceed the premium amount that would have been paid by the employees had the bill been in effect.

The bill contains an emergency clause.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

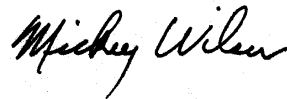
Department of Agriculture
Office of Administration -
 Division of Budget and Planning
 Division of Personnel
Department of Economic Development
Department of Transportation
Department of Mental Health
Department of Natural Resources
Department of Health and Senior Services
Department of Labor and Industrial Relations

HW-C:LR:OD (12/02)

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Department of Revenue
Department of Social Services
Department of Public Safety -
Missouri Highway Patrol
Missouri Consolidated Health Care Plan
Department of Insurance
Missouri Department of Conservation

NOT RESPONDING: Department of Corrections

A handwritten signature in black ink that reads "Mickey Wilson". The signature is written in a cursive, flowing style.

MICKEY WILSON, CPA
DIRECTOR
APRIL 23, 2003